

Statement
Insurance Association of Connecticut
Insurance and Real Estate Committee

February 25, 2014

**SB 185, An Act Concerning Changes To The Standard
Valuation And Nonforfeiture Laws, And The Use Of The National
Association Of Insurance Commissioners' Valuation Manual**

The Insurance Association of Connecticut, IAC, strongly supports the adoption of SB 185, An Act Concerning Changes To The Standard Valuation Law And Nonforfeiture Laws And The Use of The National Association of Insurance Commissioners' Valuation Manual, which seeks to incorporate the provisions of the National Association of Insurance Commissioners (NAIC) Standard Valuation and Nonforfeiture laws and valuation manuals.

The industry appreciates the Insurance Department and LCO's hard work to produce a bill that conforms to the model which will permit Connecticut to modernize laws as they relate to the methodology "principle-base" reserving for life insurance companies.

As new, more complex products are introduced to satisfy the needs of consumers, many insurance regulators and life insurance companies believe that reserve requirements need to evolve in order to keep pace with new product designs and the risks associated with the new designs.

State regulators, with the support of life insurers and the actuarial profession, have been working since 2004 to enhance the current formulaic approach with an approach that is more principle-based. The new methodology allows reserves to be tailor-made for every company and product, adjusting for the current economic environment and each company's experience, while maintaining an appropriate level of conservatism for solvency oversight purposes.

Under the new system, regulators will have access to more tools to properly monitor reserve levels. Life insurers will be required to compare a formulaic reserve calculation (similar, if not identical to current reserve calculation) with a calculation based on a company's actual experience factors—such as mortality, policyholder behavior and expenses—under a variety of economic conditions. Companies would then hold the higher of the two reserve levels. The new methodology will result in reserve calculations

that more accurately reflect risks assumed by life insurers for the policies they underwrite, without eliminating statutory guardrails. This system is designed to be a “living process” where adjustments will be made as experience with the new approach becomes commonplace.

There are two tweaks to the draft the industry recommends.

- Lines 93-97 should be amended as follows:

(b) (1) The provisions of this subsection shall apply, unless otherwise provided in title 38a, to opinions submitted by and supporting memoranda prepared and provided by qualified actuaries prior to the operative date of the Valuation Manual for policies and contracts issued prior to the operative date of the Valuation Manual, as set forth in section 2 of this act.

- Lines 299-306 should be amended as follows:

(c)(1) The provisions of this subsection shall apply to opinions submitted by and supporting memoranda prepared by appointed actuaries [for policies and contracts issued] on or after the operative date of the Valuation Manual for all policies and contracts in force, as set forth in section 2 of this act.

These suggested changes make it clear that the standards apply to the opinions that are filed in accordance with the provisions of SB 185. Without the above referenced changes, that do not become operative to some in the future when forty-two jurisdictions adopt the model, these two provisions create inherent conflict that will have to be resolved at a future date.

The IAC respectfully requests your support for SB 185.